APPENDIX B

SILICON VALLEY SHOULD NOT NORMALIZE ITS RELATIONS WITH WASHINGTON, DC

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THE POLITICAL GREENING OF SILICON VALLEY

Silicon Valley went political for the first time to stop Proposition 211, the California ballot initiative that would have subjected Silicon Valley companies to a blizzard of shareholder lawsuits. Of course, real shareholders almost never bring so-called shareholder lawsuits, these suits are brought by securities-litigation specialists such as Bill Lerach, the market-share leader in suing high tech companies. Lerach was the author of Proposition 211.

During my 28 years in Silicon Valley, I saw Intel's chairman emeritus, Gordon Moore, only about once per year. Our conversations were almost exclusively about the chip business. During one extraordinary three-month period in 1995, however, I met four times not only with Gordon Moore, but also with a large group of Silicon Valley CEOs, to talk politics: how to defeat Proposition 211. That Silicon Valley leaders would convene for and contribute $30 million to a political activity was unprecedented. We did it because Proposition 211 threatened the core of how we do business. For example, one of the provisions of Proposition 211 made it illegal for companies to indemnify their board of directors against lawsuits. How could any Silicon Valley company assemble a board of directors if the directors' personal property were liable to the vagaries of class action lawsuits?

We defeated Proposition 211 by a 3-1 margin, but our activism on Proposition 211 triggered the still-ongoing series of media reports on the "political greening of Silicon Valley." The press badly wants us in the action: Silicon Valley should stop sitting on the sidelines, stop being isolationist technonerds, recognize the value of government-industry partnerships, become part of the process and help lead the country.

I believe we could make no bigger mistake. Silicon Valley is what it is because of the core values that drive our success. The politics-as-usual we ignore is antithetical to—and highly destructive of—those core values. I will build the framework for that conclusion—starting with the basic American freedoms that allow for the very existence of Silicon Valley—as follows:

- Freedom and free markets (that is, capitalism) are built into the Constitution and the Bill of Rights.
- America is unique in that it was the first truly free nation.
- Freedom creates prosperity.
- Silicon Valley is an island of freedom and free markets, more in line with 1776 America and its government than 1998 America and its government.
- Many CEOs practice not free-market capitalism but collectivism in one of its forms.

- Collectivism is the irrevocable enemy of capitalism.
- The collectivism espoused by big government undermines capitalism and therefore the fundamental wealth-producing process of Silicon Valley.
- Rapport with Washington offers only downside to Silicon Valley.
- For these reasons, Technet, the Silicon Valley lobbying organization, is a bad idea.

FREEDOM IN AMERICA

The basic premise of freedom is: I own myself. Therefore, I do what I want and go where I want—subject, of course, to the responsibilities to observe the freedom of others.

Our freedoms beyond self-ownership are enumerated in the Bill of Rights, constitutional amendments 1-10. (Here, I would like to stop to thank the Cato Foundation for the booklet given to each of you, a pocket-sized reprint of the Declaration of Independence, the Constitution, and the Bill of Rights.)

The first amendment calls for freedom of religion, speech, press, and assembly. The *form* of these rights is particularly important: "Congress shall make no law prohibiting the freedom of… ." I call this form a "protective right," because it tells us what the government cannot do to us, not what the government promises to do for us, like the so-called right to a "decent" wage, what I refer to as an "entitlement right," one which is not part of our basic freedoms—and shouldn't be, as I'll explain later.

The first 10 amendments take the form of protective rights: to protect us from government because our founders did not trust unfettered democracy. John Adams, our first vice president and second president, said:

> "We may appeal to every page of history we have hitherto turned over, for proofs irrefragable, that the people, when they have been unchecked, have been as unjust, tyrannical, brutal, barbarous, and cruel, as any king or senate possessed of uncontrollable power. The majority has eternally, and without one exception, usurped over the rights of the minority."

John Adams would say, "I told you so," if he knew that the TV-sitcom son of Archie Bunker, "meathead" Rob Reiner, had just succeeded in passing California Proposition 10, an initiative to tax smokers 50 cents a pack because *Reiner* doesn't like cigarette companies and smoking. The tax is earmarked to "help children," via a new, ill-defined, statewide bureaucracy. Even if we dislike smoking and believe in helping children, we should never support any government action that confiscates the property of a minority group at the whim of, in the case of Proposition 10, a 50.1% majority. High-tech leaders Microsoft and Intel are currently learning that yesterday's Gallup-Poll heroes can become today's pariahs, just as subject to unfair government action as the tobacco companies.

The Constitution also allows individuals to own their own thoughts—that is, their intellectual property—in the form of our patent system. And the Fourth Amendment of the Constitution also defines the right to own real property without the fear of unwarranted search or confiscation: "The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated."

With the right to own real and intellectual property comes the right to freely trade property with others. That's the basic mechanism of capitalism: free trade between consenting parties.

I think most Americans embrace these basic freedoms. Our government talks that talk, but as we know, they certainly do not walk that walk.

Consider the so-called "living wage" measure just adopted by the city of San Jose. One advocate of the new $10.75-per-hour mandated wage said that "we should find it in our hearts" to pass the measure. Although he did find compassion in his heart, unfortunately, he had to reach into someone else's pocket to pay for his compassion. That's what is wrong with the San Jose and all other minimum wage laws: They strip away the basic right of consenting parties to freely trade their goods and services in an uncoerced marketplace. Minimum-wage laws are not about compassion, they are about politics—politicians currying favor with one block of voters by turning the government into a collective bargaining agency with powers well beyond those of any union.

Often, capitalists defend free markets with the wrong reasons—on economic rather than moral terms. The president of the San Jose Chamber of Commerce argued against the new "living wage" law because it will cause economic harm. That may be true, but most in harm's way will be the poor, many of whom will face the prospect of being fired from their jobs under the new law because they cannot provide the value to warrant their new non-market salary. But economic harm is not why minimum-wage laws are wrong. Minimum wage laws are wrong because they immorally strip away our basic freedom to trade our services and property freely. It is also true that lost freedom causes economic harm, as I will demonstrate later.

Minimum-wage laws are one example of entitlement rights. Other examples include a government guarantee to a given wage, health care, or a job. Although we all want a world with good wages, universal health care, and low unemployment, we must realize that these goals are not "rights" at all in the sense of our Constitutional rights; *they are nothing more than a government demand that Americans surrender their property and wages to achieve government-mandated objectives.* If we believe in the basic protective rights outlined in the Constitution, we cannot consistently believe in any entitlement "right" that negates those basic rights.

AMERICA, THE FIRST FREE NATION

America was founded on principles unique and profoundly different from those of its predecessors. Our Constitution defined a government that was for the first time architected from the bottom-up (the people owned a government that was created to serve them) rather than from the top-down (the king—dictator, tribe leader, politburo—owns you and your property). One might be tempted to say that the European monarchies were on the path of providing rights like ours, but, even under the assumption of similar rights, there was a profound philosophical difference. For example, British rights were granted in documents like the Magna Carta, which granted some rights from an otherwise top-down government. The American mind-set was, "I am the king, I own you and your property—even your wife on the first night—but, being a good king, I will grant you the following rights." In our bottom-up government, the first 10 amendments are protective rights, covering most daily activities—speaking, praying, owning things, defending yourself—over which government control was explicitly forbidden. The mind-set was totally different, "We are the people; we own the government—and it will not be allowed to interfere with us in the following ways."

Furthermore, the Bill of Rights finishes with the 10th Amendment, which imposes a limit on government: "The powers not delegated to the United States by the Constitution…are reserved to the states respectively, or to the people." In other words, the government was specifically forbidden from meddling in an area where no powers were expressly granted.

I wonder what the authors of the Bill of Rights would say about the federal government's current micromanagement of our daily lives, like the case of the meat-packing plant in Cincinnati, Ohio, that was penalized in one week by the Food and Drug Administration for unsanitary plant conditions, and by OSHA the next for unsafe working conditions caused by frequently washed wet floors?

In addition to the personal and economic freedoms outlined in the Bill of Rights, our Constitution did not allow a federal tax to be imposed on individuals; no revenue stream was to be created to feed a potential monster. Americans paid no federal taxes until 1913, when we mistakenly passed the 16th Amendment to allow the federal income tax. The passing of that amendment set the tone of duplicity common in tax legislation today. The 16th Amendment was passed with a promise that there would be a top-bracket tax of only 7% levied only on the richest 1% of Americans. The promise lasted three years. By 1918, the average American was taxed, and the top-bracket rate reached 77%. Since no one would ever really pay a 77% income tax, we instituted some very destructive systems: complex tax laws to aid in tax dodging, Congressional micromanagement of the economy using tax breaks, and the practice of giving political contributions in return for tax breaks and subsidies.

The corporation was an important part of our economic freedom, even in colonial times. Corporations provide the ability for people to work together with joint liability, rather than individual liability. That means if the company we work for becomes liable to another company or individual, our personal property cannot be confiscated, only that of our company. One reason Proposition 211 was so abhorrent to Silicon Valley is that it made it illegal for the directors of a company to have the same individual liability protection enjoyed by all other company employees. Without corporations, individuals would not organize to perform tasks greater than individuals can achieve alone. America did not invent corporations, but we embraced them. By 1800, there were more corporations in America than in all of the great countries of Europe combined.

FREEDOM CREATES PROSPERITY

Ayn Rand once asked the rhetorical question, “Where did the extra come from?” She was referring to the wealth *created* by capitalism. She noted that after capitalism’s

invention, wealth creation reached the rate of 300% per century, while prior to capitalism, the world had achieved a rate of only 3% per century. I decided to quantify

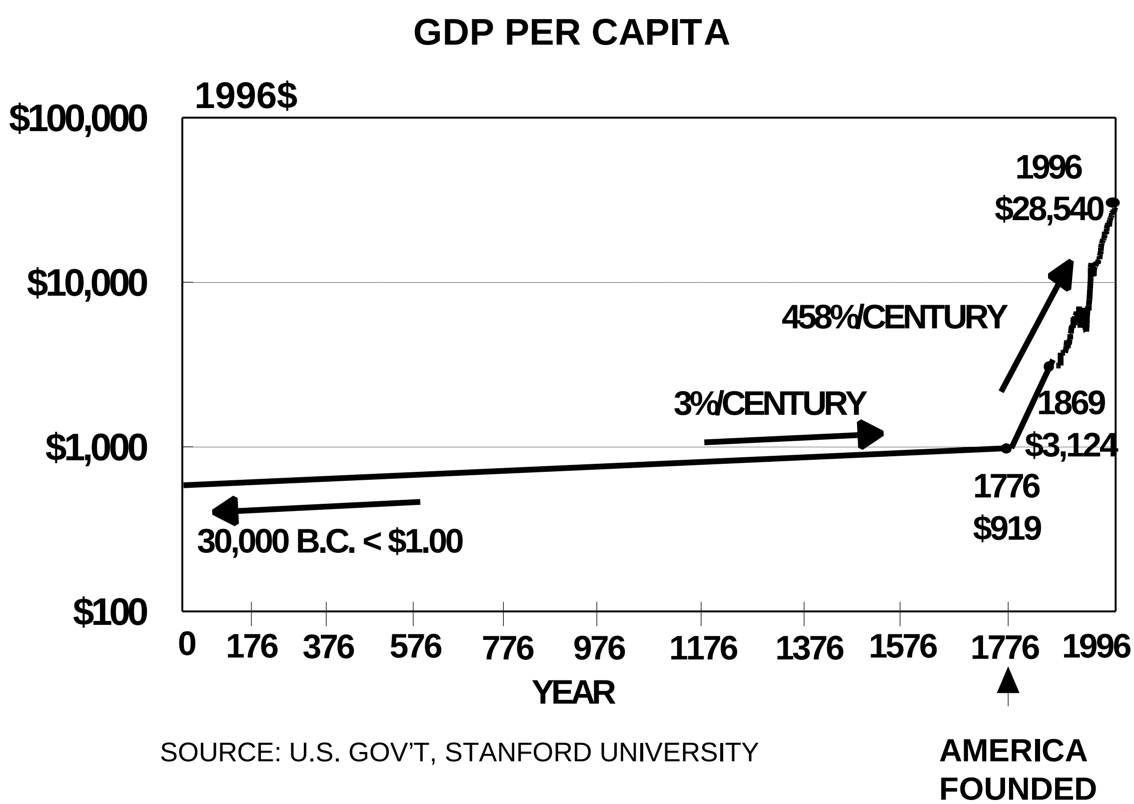


Figure 1. This graph of Gross Domestic Product (GDP) per capita vs. year shows that Americans in 1776 produced $919 per person per year in 1996 dollars, according to a 1994 Stanford economic study done by Passell and Atack. By 1869, the Department of Commerce reported its first results at $3,124 per person per year. Since 1869, yearly data shows an increase to $28,540 in 1996. The growth rate of GDP per capita from 1776 to 1996—which is nearly identical to the growth rate of the average wage—is thus best estimated at 458% per century.

Rand was right—something big did happen around 1776—and the common man became much more prosperous, much faster, than ever before in history.

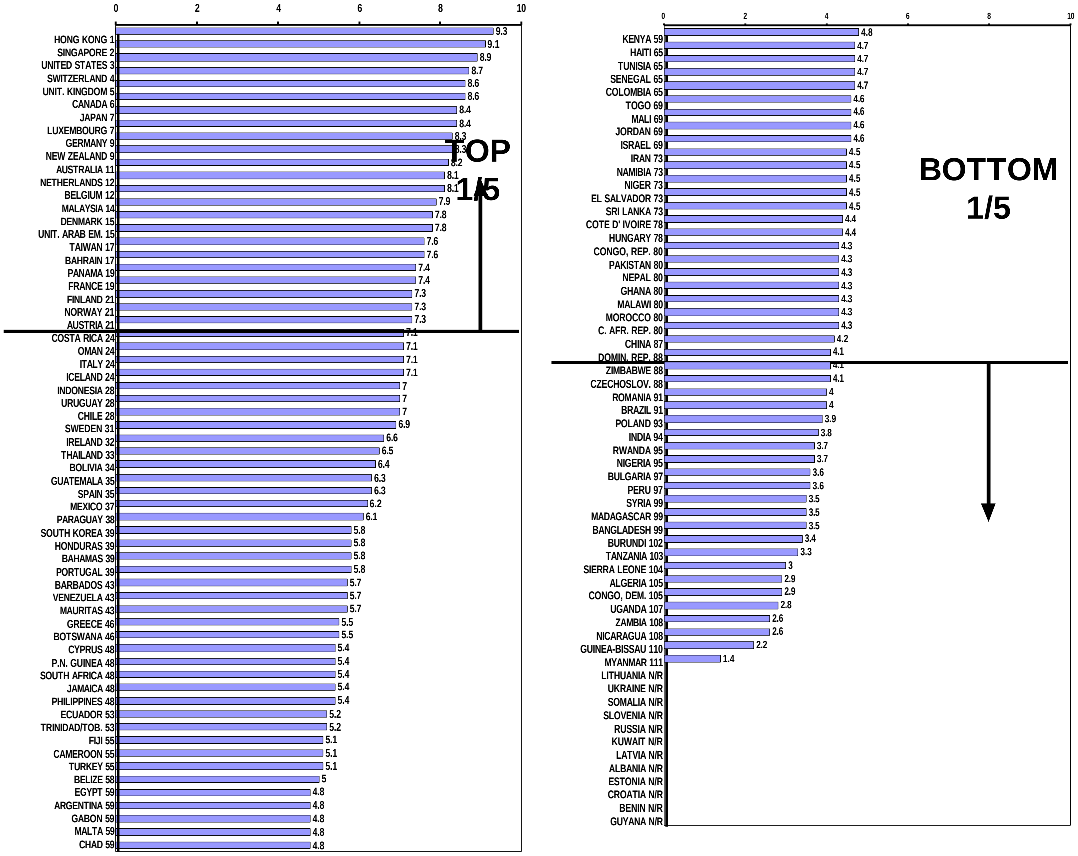
A more contemporary look at the relationship between freedom and prosperity is produced on a yearly basis by Canada's Fraser Institute, whose Economic Freedom Index ranks countries according to complex measures including:

- The size of government as a percent of the economy.
- Government investment relative to the private sector.
- The use of price controls.
- The top marginal tax rate.
- The right of citizens to own foreign currency.
- The right of citizens to hold foreign bank accounts.
- The protection of property rights.
- The freedom to trade with foreigners.
- Taxes on international trade.
- Private vs. public bank ownership.
- The use of interest rate controls.
- The use of conscripts to obtain military personnel.

It is interesting to note that the military draft is considered in an economic context, separate from its impact on human rights. However, if you think back to the basic rights of owning yourself and of trading your services to others at a mutually agreed-upon price, there is a big difference between forcing people to join the military under the threat of jail and obtaining a voluntary agreement with people to serve in the military for compensation. I doubt that the Vietnam War would have happened if Americans had to pay for it at free-market prices.

The factors in the Fraser index are weighted and condensed into a single scale that ranges from zero to 10, the best score. All of the world's prosperous, large economies—the U.S., the U.K., Canada, Japan, Germany, and France—have freedom indices in the top 20% of the index. Conversely, Fraser's bottom-20% is populated exclusively by economic train wrecks.

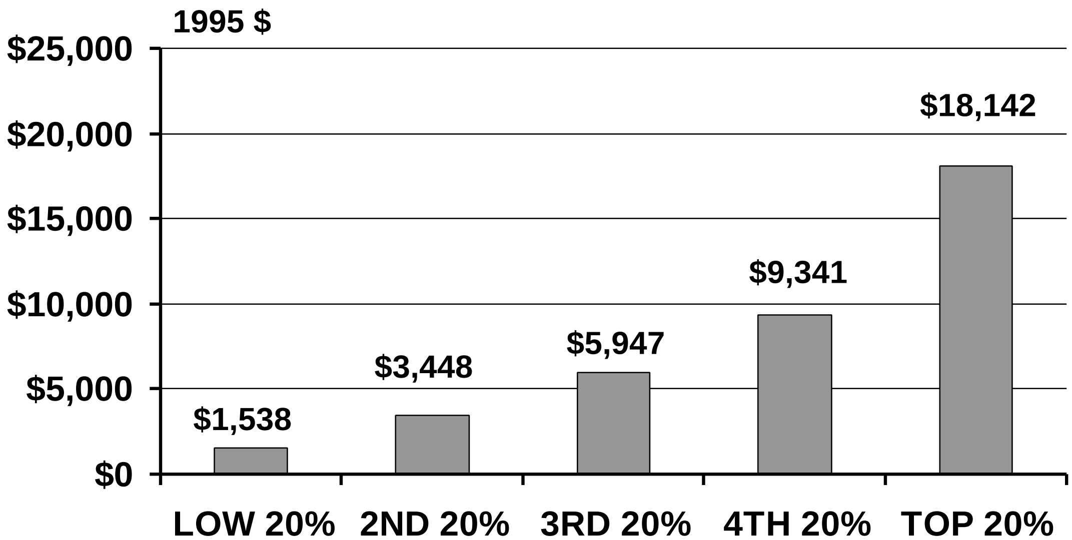
ECONOMIC FREEDOM INDEX



SOURCE: FRASER INSTITUTE

Figure 2. A list of the world's countries, ranked by economic freedom on a scale of 1-10. The United States ranks No. 3 in economic freedom.

GDP PER CAPITA VERSUS ECONOMIC FREEDOM



SOURCE: FRASER INSTITUTE

Figure 3. The correlation between national GDP per capita and freedom shows that freer countries are richer countries.

Comparing the five quintiles of the Fraser Economic Freedom Index shows that countries in the top 20% of the index have a per capita income which is more than 10 times that of countries in the bottom 20%.

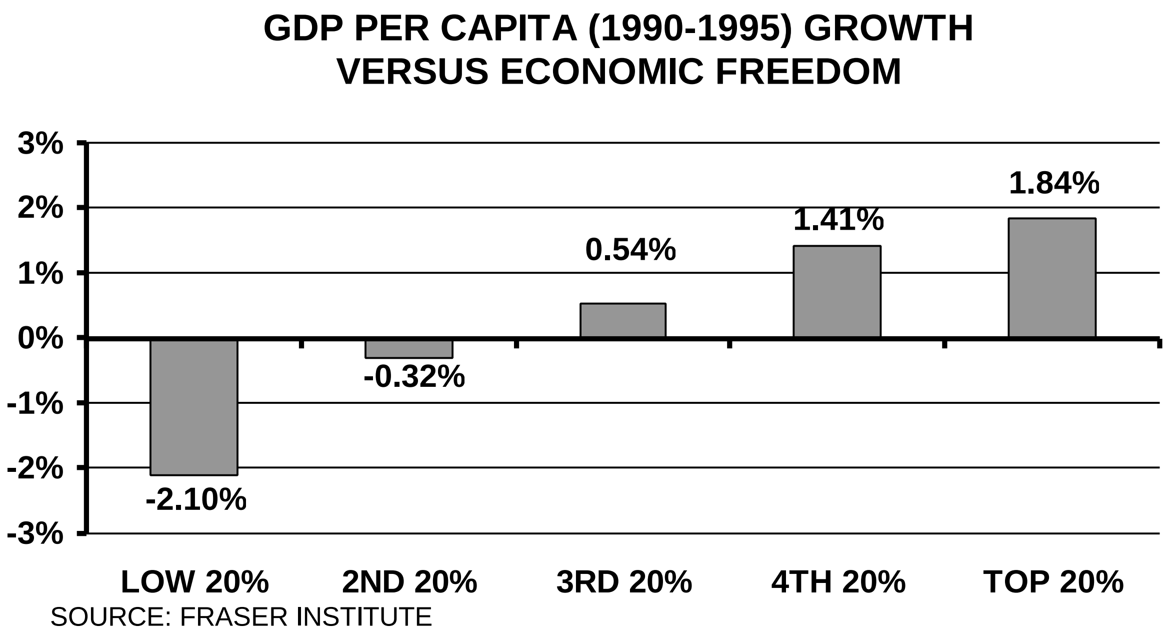


Figure 4. The growth rate of real GDP per capita increases as economic freedom increases.

In addition to earning a higher yearly income, people in freer countries also see their income growing at a rate faster than that of people in countries with less freedom. In the least-free countries, per capita income is actually shrinking. The old adage that the "rich get richer, and the poor get poorer" is a fact. The rich get richer not because of some unfair advantage, but because they demand freedom. Again, we should remember our priorities: we're free because that is morally right—and we're prosperous because we're free.

SILICON VALLEY, BASIC AMERICAN VALUES AT WORK

The free market in Silicon Valley is not well ordered or even predictable. People are free to quit, to start up their own company, and they often do. More often than not, start-ups end in failure: three out of four don't make it. That tolerance for failure is a very important factor that differentiates the Silicon Valley economy. When a start-up company fails in Silicon Valley, no one wails about the unfairness of foreign competition or the need for government intervention. We simply say something like, "Did you hear that Schlock Tech cratered?" And then we get on with making sure we don't suffer the same fate. Failure is OK in Silicon Valley, because we truly believe that people are the key asset of any company, and that the newly defeated will be quickly re-employed to try again. When one of our competitors had a large layoff a few months ago, our HR department hired an airplane to fly over its headquarters, hauling a banner with our name and web site address. While the "right to fail" is a key attribute in a truly capitalistic economy, it is alien to the security-seeking "old economy." When Chrysler got in trouble, it successfully pleaded for a government bailout "to save jobs." When Intel got in such deep trouble in 1985-1986 that it laid off one-third of its work force, it never asked for a bailout, and there was no surge in unemployment. The rest of Silicon Valley simply hired the windfall of exceptional talent.

When a Silicon Valley company can no longer afford to support its employees and shareholders, it is natural and right that the process Schumpeter described as “creative destruction” be allowed to move employees from low productivity jobs in a troubled company to higher productivity jobs elsewhere. It is not only wrong to coerce people into supporting a failing company, it’s also economically disastrous for our government to save old, low-productivity jobs just because that company has developed a skillful lobbying department.

The basic right of individuals to own their ideas takes on particular importance in Silicon Valley. Most ventures are funded specifically because of their intellectual property. Cypress’s original intellectual property consisted of a way to make transistors faster than those of our competitors and a business plan to bring that technical capability to the market. Our 15-page business plan—and the six founders to pull it off—sold to a consortium of six venture firms for $3.5 million. Today Cypress’s market capitalization has grown to approximately $1 billion—that’s a typical, even modest, story of wealth creation in Silicon Valley.

Silicon Valley is an economic meritocracy where people know that salary is not the path to prosperity. They know that “owning a piece of the rock”—and then making the rock worth a lot of money—is the only way to prosper. Here, the greatest wealth goes to those who create the greatest value. Intel became rich because it sells 80 million computer chips a year for about $200 each, a great value because each of those computer chips has about 50,000 times the power of a 1950’s-vintage mainframe computer that cost $5 million.

Silicon Valley knows that the old adage “money makes money” is false. We know that people make money, and money makes money only when it’s invested in the right people. That’s why Silicon Valley considers people to be an asset, not a liability, the way government views them. That’s why when we see an immigrant we do not see a potential welfare case but an intellect with the potential to help one of our companies. The chairman of our board of directors and four of Cypress’s ten executive vice presidents are immigrants.

Silicon Valley is a successful and dynamic example of the basic American values outlined earlier at work: private property, intellectual property ownership, and free markets. Just as Americans are better off than people in other countries because our economy is freer, so the people of Silicon Valley are better off than the average American, because the Silicon Valley economy is even more free.

I view Silicon Valley as a place of “free minds and free markets,” to use the trademark phrase of the Reason Foundation. Capitalism is not just an economic system here, it is a way of life. And, to me, it is a natural way of life. I always remember a bumper sticker that read, “Capitalism: What people do when they’re left alone.”

Capitalism has made the whole Valley rich, not just its CEOs. The 4.2 million factory workers employed by the high-tech industry earn almost twice the yearly wage of workers in other industries. And—as I will illustrate in a poignant example—our markets have enabled us to become strategically important to America, as we have invented or commercialized revolutionary innovations such as the silicon chip, the computer, genetic engineering, and the Internet.

I don't want more government in Silicon Valley. Government can do only two things here: take our money, limiting our economic resources, or pass laws, limiting our other freedoms.

The question then arises: Why does Silicon Valley appear to be "going political"? Why do we see some of our CEOs actively embrace Washington? The counterintuitive answer is that many businessmen are not capitalists, as I have defined that term. Indeed, in many corporations, there are better capitalists in the stockroom than in the boardroom.

MANY CEOs ARE NOT CAPITALISTS

I used to naively assume that a CEO, by the nature of his or her job, was a free-market capitalist. That view became problematical when I noted that some CEOs did very non-capitalistic things, like lobbying for corporate welfare. I wondered, was there some sort of "new capitalism," embodying concepts like "government-industry partnerships," that transcended my traditionalist version? The Cato essay, "The Paradox of the Statist Businessman," by Theodore J. Forstmann, addresses this apparent contradiction.

Forstmann points out that just as the basic values of most ministers are undermined by the TV evangelist, Jimmy Swaggart, so are the values of capitalist CEOs undermined by what Forstmann calls the statist CEO, those CEOs who compete using the power of the state.

The prototype capitalist CEO lives right here in Silicon Valley: He or she is an entrepreneur with a position earned on merit, often the head of a start-up company that has created wealth not only for the CEO but also broadly for employees and shareholders.

Let's contrast a hypothetical Silicon Valley capitalist businesswoman with a hypothetical statist businessman. To visualize the statist businessman, think about the behemoth company you dislike most—a company that is arrogant, treats its customers poorly, has lost market share, is always "downsizing," and fights a protracted battle with hostile, unionized employees. Its CEO is almost undoubtedly a statist businessman.

While the entrepreneur earned or created her position, the statist businessman achieved his position by climbing the corporate ladder, much the same way a politician climbs the political ladder—by currying favor with the right people; by not stepping on the wrong toes; and by building a power base. And like the politician who has clawed his way to the top, holding power is the statist businessman's top priority, even above the interests of his company. Meanwhile, the entrepreneurial businesswoman has no time for corporate power struggles, she has to concentrate on the tumultuous world of Silicon Valley, where a new start-up or well-staffed big company might take a devastating toll on the competition in only a few quarters.

The statist businessman draws a huge salary and bonus, as negotiated by his agents. His perks—corporate jets, limos, lavish expense-account dinners—are the reward for climbing the ladder. Those of you who have traveled here for this meeting will find out that there are no great, super-expensive restaurants in Silicon Valley and that night life here is characterized by freeways jammed at 7:00 p.m., when we leave work. The corporate jet is a Silicon Valley joke. Gil Amelio's short tenures as CEO of National Semiconductor and then Apple Computer were punctuated by derisive reports on how he insisted that each company pay for his private airplane. Once, as I flew in a middle seat in coach class into Beaufort, South Carolina, to speak to a Fortune 500 conference, I counted 52 corporate jets that flew in the CEO for golf—and a little conferencing.

The entrepreneurial CEO keeps her salary and bonus very modest by Fortune 500 standards. That is not to say Silicon Valley entrepreneurs cannot get very rich: Intel's founders have earned hundreds of millions of dollars in capital gains. It is easy to make a hundred million dollars in Silicon Valley—all you have to do is own one percent of your company and then spend 20 years making that company worth $100 billion. Intel's current $160-billion market capitalization was *created from nothing*. Intel's employees and shareholders benefited with over $99 of capital gain for every $1 collected by its founders.

The statist businessman wins using the state; that is, government. His large and effective lobbying organization is skilled at reducing taxes on his company, increasing the taxes on competing import products, creating quotas to block the imports he cannot tax away, and lobbying for pork—those "government-industry partnerships" that allow him to continue on in businesses that would not otherwise be economically justified. Archer Daniels Midland Corporation's chairman, Dwayne Andreas, is one of the most effective statist CEOs, dubbed the "prince of political influence" by *The Wall Street Journal*. About half of ADM's agricultural products are subsidized or protected by the federal government. The company rakes in $400 million per year from the government, gives lavishly to both major parties, and advertises heavily on Sunday morning TV political talk shows. ADM gets my vote for the most unreasonable subsidy: a tax break on each gallon of corn-ethanol production that exceeds the production cost of the gallon of gasoline it replaces.

While the statist CEO has a well-staffed Washington office and government action agenda, most Silicon Valley companies do not have any presence in Washington at all. Even large Silicon Valley companies, such as Intel, have only a modest presence in Washington. And even then, Intel's six full-time lobbyists do only defensive work—to protect the company from inappropriate, top-down government mandates—rather than lobbying for corporate welfare.

The differences between the capitalist entrepreneur and the statist businessman could not be greater: It is the difference between free market capitalism and the *collectivism* inherent when government distorts free market action. The statist businessman is no friend of Silicon Valley. He could not be more different from Silicon Valley leaders, despite the fact that his title may be "CEO."

COLLECTIVISM, ENEMY OF CAPITALISM

There are many forms of collectivism, some are mislabeled as "capitalism." The former Soviet Union is a straightforward example: collectivism took the form of socialism, an unmitigated economic disaster. However, consider the Japanese keiretsus and Korean chaebols. They're labeled "crony capitalism" by the press but are really nothing more than mutations of collectivism.

The freedom of Americans to invest their money in a diverse, international money market contributes to our high score on the Fraser Economic Freedom Index. The Japanese money market is not free. Japanese people cannot choose among 500 different mutual funds. Free-market competition for Japanese investment by American financial institutions is banned by the cronies that run crony capitalism.

With limited investment choices, the Japanese put their money into post office accounts, which currently pay 0.25% interest—yes, you heard me correctly. Of course, any American financial institution would be overjoyed to give the Japanese people 2.5% interest, 10 times the going rate, but that's not allowed. Having used the government to block free-market choice for savings, the keiretsus then exploit their "government-industry partnerships" to use the cheap money as they want, usually as below-market loans to subsidize manufacturing companies.

Although the men who run the keiretsus are much more competent than those who ran the Soviet Politburo, no elite power structure can make decisions as well as the free marketplace. The keiretsus looked unstoppable in the '80s, when they effectively attacked our semiconductor industry. But the strategy of the Japanese keiretsus and Korean chaebols—to use nearly free money to gain market share without regard to profitability—has no more economic integrity than a Ponzi scheme, it just takes longer to collapse.

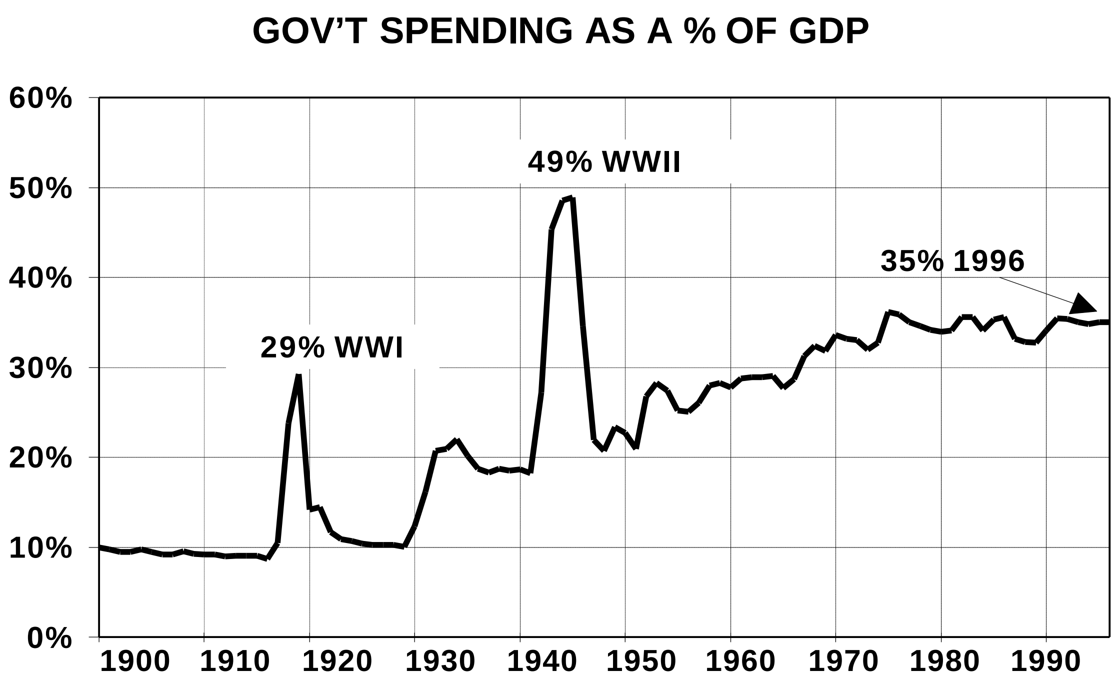
Meanwhile in Silicon Valley, American investors, represented by their tough and aggressive mutual fund managers, demanded fair returns on their money, forcing our companies into a pay-as-you-go mode. With 6% money, our industry had a tough time competing against Japanese competitors with 0.25% money, but the free market capitalism of Silicon Valley prevailed over the collectivism of Japan. After a brief period of market-share leadership, the Japanese semiconductor industry has collapsed far into second place with a 32.5% market share, compared with America's 49.2%, according to semiconductor research organization Dataquest.

Clyde Prestowicz declared the demise of the American semiconductor industry in his naïve book, "Trading Places," a work that became the mantra for every collectivist in Washington who wanted more control of Silicon Valley. The Japanese semiconductor scare produced Silicon Valley's only noncapitalist aberration, the successful lobbying effort to gain $1 billion in corporate welfare to support Sematech, a semiconductor industry consortium. Fortunately, our leaders woke up quickly and dumped the subsidy with hundreds of millions of dollars still available. The current charter of our Semiconductor Industry Association now calls for "free and open markets," and the SIA board of directors is on record saying that it will not lobby for government subsidies. What Washington lobbying group do you know that stands for free and open markets with no subsidies?

In 1997, I testified before Congress to support the elimination of the Department of Commerce, a primary delivery vehicle for corporate pork. By circulating a statement denouncing corporate welfare only 48 hours before my departure, I was able to get signatures of 79 Silicon Valley CEOs, who agreed to swear off corporate pork, even if it meant that their companies lost government funding. Do you think I could convince Archer Daniels Midland's chairman to sign that document? I even tested one of my icons, Jack Welsh, the CEO of General Electric, a big recipient of corporate welfare.

Jack said “no” via a letter written in bafflegab by one of his “government relations” people.

Americans may live in the most economically free major world economy, but capitalism vs. collectivism is not a black-white dichotomy; it has a gray scale. Currently, our state, local, and federal governments control about 40% of our gross domestic product—that is 40% of the combined output of every American.



SOURCE: HARRY BROWNE REPORTS, U.S. GOV’T STATISTICS

Figure 5. Prior to the enactment of the federal income tax in 1916, only 10% of America’s then-small GDP was required to run the government. During periods of war, the amount spiked up, but later returned close to prior levels. There are two noticeable periods of American economic socialization: in the 1930s, when President Roosevelt took a second 10% of America’s output for the Great Depression, and in the post-World War I I period, when America and other democracies began a process of economic socialization. President Reagan mitigated that trend in the 80s, but he did not reverse it.

Although you may think that 40% of GDP is an excessive cost for government, most of the socialized democracies of Europe spend more than 40%—and have the stagnant economies to show for it.

One easy way to pinpoint the absurdity of the American tax bite is to question the 39.6% tax rates levied on Silicon Valley CEO's and the 36% rate levied on their companies. The standard argument for higher taxes is that they fund a greater good, like curing cancer. Of course, it is not at all clear that cancer could not be cured more quickly and cheaply with private funds, or that the "greater good" espoused is always as noble as fighting cancer. My favorite line item in this year's omnibus budget—pork-barrel legislation of cosmic proportion—is a $500,000 line item for horse-manure management. I am not joking with you, it is really in there. And while you are laughing, I'll add that there is another $500,000 line item for pig-manure management. Two Congressmen, two states, two campaign promises kept—it is the American government way.

Let me attack the tax-for-greater-good argument as it applies to us in Silicon Valley. Consider the effect when the Clinton-Gore administration raised the tax on Silicon Valley companies from 35% to 36%. Vice-President Gore basks in the technology image that a few Silicon Valley leaders have given him. But that extra 1% tax Al Gore levied on Silicon Valley takes away billions of dollars from Silicon Valley—over $400 million a year from Intel alone. Consider that corporate tax on Intel a choice: either Intel invests its own profits, or surrenders those profits as taxes to be invested by the government. Intel's $400 million will be invested; raising or lowering taxes just decides who invests it. From that perspective, we have the preposterous claim that high-tech VP Al Gore can do better by investing the $400 million than could Intel's CEO, Craig Barrett. I state the obvious: Every American would be better off if Craig Barrett invested the $400 million.

An equally absurd situation arises when the government taxes Silicon Valley CEOs at a rate of 39.6%. By raising the tax on top-bracket individuals from 36% to 39.6%, the Clinton-Gore administration will have extracted in the neighborhood of $1 million in extra taxes from the average Silicon Valley CEO by the time their administration ends in 2000. In my case, I have paid those extra taxes by selling off some of my investments, most of which are made in electronics, biotech, and Internet-related companies right here in the Valley. Many of those companies are funded by venture capitalists with whom I work. I often evaluate companies, people, and business plans for venture capitalists. Sometimes I even join the boards of start-up companies to help them succeed. Who would best invest the last $1 million that I earned and gave to the government, me or high-tech VP Al Gore?

Silicon Valley is an island of capitalism in a sea of collectivism. We are surrounded by big governments, big unions, big media, and big, statist corporations. We are an island of meritocracy in a sea of power struggles. In Silicon Valley, the phrase "what you know is more important than who you know" is a fact of life, not just an unrealized ideal.

DO NOT NORMALIZE SILICON VALLEY'S RELATIONSHIP WITH WASHINGTON

By the very way it works, Washington undermines the free minds and free markets that are the cornerstone of Silicon Valley's success. Republicans claim their party stands for free markets, but they are the enemy of individual freedom, desiring to control by federal law what you watch and what your reproductive habits are. The Democrats claim that their party stands for individual freedom, but they have always been the party of the free lunch, the party willing to tax and spend because they arrogantly believe they have a better idea of what to do with your money than you do.

The metric that differentiates Silicon Valley from Washington does not fall along conventional political lines: Republican vs. Democrat, conservative vs. liberal, right vs. left. The key issue separating Silicon Valley from Washington is freedom vs. control. That is the metric that contrasts individual freedom to speak vs. tap-ready telephones, local reinvestment of profit vs. taxes to Washington, encryption to protect privacy vs. government eavesdropping, success in the marketplace vs. government subsidies, and a free Internet vs. a regulated Internet.

Once you understand that the left-right or liberal-conservative dimension is not the dimension that measures the gap between Silicon Valley and Washington, you will begin to see that the Washington politicians who argue vehemently about their supposedly profound differences are really cut from the same cloth. Think about the ultimate left- and right-wing figures in history. Perhaps the ultimate left-winger is Joseph Stalin and the ultimate right-winger is Adolph Hitler. Were these men really that different? Or does the left-right spectrum actually turn in on itself, putting Hitler and Stalin next to each other? I believe Hitler and Stalin were nearly the same, with the only thing separating them being the list of things for which they would kill you. In these less totalitarian times, we might view famous current left- and right-wingers, Teddy Kennedy and Newt Gingrich, as being nearly the same, separated only by the list of things for which they would put you in jail or take your money.

The political parties are not even delivering their half-promises of freedom. The Republicans are not delivering on economic freedom, and the Democrats are not delivering on individual freedom. Newt Gingrich, the self-proclaimed champion of small government, just managed the passage of a bill to purchase hundreds of millions of dollars worth of C130 cargo aircraft that the Pentagon stated publicly it did not want. The Pentagon has complained that it receives unneeded C130s every year, which it quickly passes along to National Reserve units. Quite by coincidence, those C130s are made in Georgia, Gingrich's home state. And Kennedy, the champion of personal freedom who protects individuals from big corporations, just authored a healthcare bill, which for no discernible reason whatsoever allows the American government to confiscate your assets—yes that is right, to violate the Constitution and take away your property—if you obtain foreign citizenship.

Who goes to Washington? Those who have chosen governing—that is, ruling—for a profession. Washington is in the business of restricting freedom, and, therefore, in the business of undermining the foundation of Silicon Valley.

On the economic side, what has Washington got to offer Silicon Valley? Consider the pork-barrel process by which Washington works: it extracts 20% of the yearly output of Americans as federal taxes, consumes much of it to run a grotesquely inefficient organization, and then allows us to fight to get back the rest of what we first earned in the form of grants and subsidies. Silicon Valley is not very good at the pork-barrel game. Statist companies have refined their lobbying skills for decades. We cannot and do not want to win at their game. Famous bank robber Willie Sutton, when asked why he robbed banks, said, "Because that's where the money is." Today, Silicon Valley is where the money is. Anyone who believes that money will flow uphill from Washington to Silicon Valley is very naive.

Simon Cameron, three-time U.S. Senator from Pennsylvania from 1847-1877, said, “An honest politician is one who, when he is bought, stays bought.” By that standard, President Clinton is not a good politician. One of the few political issues of interest to Silicon Valley is shareholder litigation reform, an effort to protect our businesses from continuous barrages by the shareholder lawsuit industry. Over half the member companies of the American Electronics Association have been sued for shareholder fraud by a small group of law firms specializing in this lucrative endeavor. We must believe that either half of AEA member companies are crooked, or that we have a group of lawyers running amuck. In 1995, Silicon Valley lobbied for the Securities Litigation Reform Act, the SLRA, an act that put a higher burden of proof on plaintiffs in shareholder lawsuits before they are allowed to initiate the extraordinarily expensive discovery phase of a trial.

My company was sued in 1992 when our share price dropped after we reported $0.15 earnings per share for the quarter compared with analysts’ expectations of $0.20. The “fraud” claim was “justified” by using several of my quotes (for example, in 1991, after seven consecutive years of growth, I said we expected to grow again in 1992) and by declaring that earnings below expectations must therefore constitute fraud. This ridiculous complaint, created in hours by a legal lawsuit factory, launched us into a five-year, $5-million proceeding, before a federal judge found the case had no merit and threw it out of court.

The 1995 SLRA was carefully crafted by the Senate to balance the opposing objectives of limiting frivolous lawsuits while preserving the right to sue for those truly defrauded. Even though Clinton wooed Silicon Valley by telling us he supported litigation reform, he had also taken political contributions from plaintiff lawyers. He chose them over us and vetoed our litigation reform bill. Fortunately for us, the SLRA was so well-crafted that a Democratic Congress overrode Clinton’s veto. Shortly after that fiasco, Clinton returned to Silicon Valley for some more PR and to raise money at a prominent CEO’s house at a $50,000 per plate dinner. One dinner topic was litigation reform. Clinton then accepted several hundred thousand dollars to perform a back-flip. He turned on the securities lawyers and denounced Proposition 211, which would have effectively overridden the newly enacted SLRA in California.

Politicians know that playing both sides of an issue often brings in money from each side. Clinton repeated the performance this year when he flew to Silicon Valley for one fund raiser, and then flew on to San Diego the next day for a fund raiser hosted by Silicon Valley’s legal nemesis, Bill Lerach.

Siding with the Clinton administration may give Silicon Valley a temporary advantage on some issues, but in the long haul, this administration undermines our basic values. The Democrats have no monopoly on undermining our values. Republican Bob Dole was the patron saint of Archer Daniels Midland’s billions of dollars in taxpayer subsidies. Dole flew on ADM’s plane numerous times at submarket rates and purchased a Florida condo from ADM, also at a sub-market price.

Pork-barrel politics is not only wrong, it is also highly inefficient. Often, the grants that come back to Silicon Valley are politicized into a state of worthlessness. For example, four years ago, *Electronic News* published a report about making gallium arsenide—a semiconductor several times faster than silicon—aboard the space shuttle. Despite my own graduate-level training in transistor physics, and the fact that I was a member of the board of directors of Vitesse Semiconductor, the largest commercial manufacturer of gallium arsenide chips, I could see no economic benefit whatsoever in the space chips. Neither did Dr. Lou Tomasetta, Vitesse's CEO, who called the space chips "a solution looking for a problem." In this case, an "industry-government partnership" launched several $150-million shuttle flights without consulting with the industry partners, who would have predicted correctly that the "chips in space" program was useless. This is a classic and apparently contagious example of collectivist science: When I visited Zelenograd, Russia's version of Silicon Valley, near Moscow, I found that the Politburo had funded the same project. Stacked neatly in the corner of a museum were space-grown crystals not only of gallium arsenide, but also indium antimonide and lithium niobate.

On the personal side of freedom, Washington is in the control business, but faces an obstacle described by Ayn Rand, in "Atlas Shrugged," "There's no way to rule innocent men. The only power government has is to crack down on criminals. When there aren't enough criminals, one makes them: one declares so many things to be a crime that it becomes impossible for men to live without breaking laws."

Many of you who traveled here may not know that you broke a federal law. This year, under a new law, it is illegal to carry prescription drugs not sealed in their original container. So, if you use a pillbox to carry a prescription drug along with your aspirin and vitamins, you broke a federal law.

In addition to the asset confiscation penalty on foreign citizenship I described earlier, Sen. Kennedy authored a law with 100 pages of "healthcare crimes," which also passed this year. These laws also turned the federal governments new weapon of choice—asset confiscation—on doctors that commit such crimes. Kennedy is ready to guarantee our so-called right to healthcare—by violating Americans' Fourth Amendment right to be secure in their persons, houses, papers, and effects against unreasonable searches and seizures." Why should Silicon Valley engage with a culture that attacks freedom on so many fronts?

As "healthcare crime" laws are to medicine, so are the extraordinarily ambiguous and illogical antitrust laws to business. Rand ridiculed the contradiction of "free markets, enforced by law." The antitrust laws, a modern invention of the so-called trustbusting era—in effect make it illegal for a company to be conspicuously successful. The ambiguity of the laws grants the government huge powers to define on an ad hoc basis what is legal and illegal, thus giving it control over the company's operations. Often the government uses another oxymoronic device, the "consent decree," to enforce its will on businesses seeking to avoid protracted litigation against a foe with unlimited resources.

Illogic comes from illogical laws. Consider the 1945 antitrust case of the United States vs. Alcoa Aluminum. Federal Judge Learned Hand was Alcoa's judge and jury in that case, as is typical in antitrust cases. He broke Alcoa apart with a judgement that contained this rationalization:

> "It was not inevitable that [Alcoa] should always anticipate increases in the demand for ingot and be prepared to supply them...before others entered the field. It insists that it never excluded competitors; but we can think of no more effective exclusion than progressively to embrace each new opportunity as it opened."

That's right, Alcoa was convicted and broken apart for committing the crime of building an efficient company that gained market share!

Some high technology companies are now conspicuously successful. And, true to form, Washington's attack on Intel and Microsoft already has begun. The dreadful vagaries of the antitrust laws are most evident in the ongoing Microsoft trial. A single judge listens to the complaints of a few resentful competitors, reads a colorful memo from a Microsoft executive talking about "choking the air" out of some competitor, and then has the power to break apart the company founded and built by others over a decade, perhaps destroying billions of dollars of market capitalization in the process. A verdict against Microsoft would read as poorly in time as does the Alcoa verdict now. If convicted, Microsoft would be guilty of this crime: continuously adding features to its software, while bringing the price per function of its software to an all-time record low to the benefit of its millions of customers.

The justice department once offered Microsoft a way out: agree to offer browser software from its competitor, Netscape. I respect Bill Gates for rejecting what might have been a relatively painless escape and for litigating the issue on principle.

Think about the topics of the last few minutes: pork-barrel politics and laws limiting freedom by creating new classes of criminals. Why would we *ever* voluntarily involve ourselves in the Washington morass?

TECHNET, A BAD IDEA

Technet is a new Silicon Valley lobbying organization. Its website shows a cartoon of a Silicon Valley nerd shaking hands with a Washington bureaucrat. Technet could be the unofficial embassy that normalizes our relationship with Washington. That would be a very bad idea.

When I asked my assistant "who the hell runs that organization," she gave me a list of its directors, which included two venture capitalists who funded Cypress in 1983, two investment bankers who brought Cypress public in 1986, a former member of Cypress's board of directors, four CEOs of respected Silicon Valley chip companies, four CEOs of important Cypress customers, and Cypress's current chairman of the board of directors. At that point, I thought my criticism of Technet might best be done with diplomacy, but unfortunately, I lack the diplomacy gene.

I opposed Technet prior to its founding. Technet was an extension of the anti-Proposition 211 initiative. After the victory over 211 there was a leftover contributions kitty, and I was asked to leave in Cypress's share to fund other political endeavors, like contributing to politicians who support Silicon Valley. My refusal letter read as follows:

> "I am really speaking out against that pork-barrel system. Why else would I lobby against Sematech, a subsidy for my own industry? I also lobbied against the Department of Commerce—to abolish it—specifically because it is one primary vehicle of corporate welfare. Given that mindset, you can understand how I would never support a politician like Anna Eshoo [a local Silicon Valley Democratic congresswoman]. She

> may agree with us on one or two technology issues to save her political butt, but she is a liberal-socialist who voted to increase taxes on all American corporations. She is the enemy, standing against everything I stand for. It is only an accident of political expediency that causes her ever to be on the same side of a given issue. Just as I wouldn't give money to PBS television, to be used to batter free markets and corporations, I don't give money to politicians to buy their vote on any given issue."

I guess you could say that I was adamantly opposed to Technet, even before it got started.

At least Technet is honest in its support of the pay-for-play Washington system. Here is an excerpt from a typical Technet email:

> "I would like to call your attention to two congressman who have recently visited Silicon Valley and who have played a key role in our...success. Rep. Billy Tauzin... and Rep. Mike Oxley... We'll be following up with phone calls and emails to ask for your financial support for these two friends. We hope you will consider making a $1,000 donation to each of them."

It seems that Technet agrees with Will Rogers' observation that "America has the best Congress that money can buy."

In fairness to Technet, I should mention that its two current initiatives are K-12 education reform, and the Unified National Standards Act, yet another law designed to eliminate frivolous shareholder lawsuits, one necessitated by the fact that securities lawyers now sue companies in both state and federal courts, under two sets of rules, making securities lawsuits even more painful and expensive.

Since Technet is not about to close up shop based on my criticism, I hope it will at least follow this advice:

- Never lobby for pork-barrel measures;
- Never move headquarters to Washington (the demise of other lobbying organizations);
- Never lobby for a narrow issue like beating Microsoft at the expense of a fundamental issue like government control over free markets.

JOHN DOERR, VENTURE CAPITALIST

John Doerr was a leader in the victory over Proposition 211, and is currently a Technet leader. The press has singled him out as the icon for the political greening of Silicon Valley. John has supported the current administration, and there is talk in the Valley about "Gore and Doerr in 2004." In addition, John is a general partner at Kleiner, Perkins, Caufield & Byers, one of the firms that funded Cypress. He also served on Cypress's board of directors for 10 years. And he is a friend of mine.

Once I stated in a magazine interview that John Doerr would be better off if he stayed home and did his job as a venture capitalist. John read my remarks and reasonably misinterpreted them as criticism. He shot back in another magazine article that I was a "cowboy entrepreneur" who needed to think beyond the confines of Silicon Valley. After that, I called John to explain to him in detail what I meant by my statement. First, I got him to agree with my premise that the biggest success he could have at Technet would be to get the Unified National Standards litigation law passed quickly and efficiently. (Today, he would probably also add improving K-12 education as a big goal.) Once we had established the definition of success for John Doerr at Technet, I reminded John of the success he had already achieved as a venture capitalist. What I said to him was a lighterweight version of the following statement, which I have enhanced by reading through the reports I receive from Kleiner-Perkins:

> John, in addition to starting Cypress, you and your firm also started eight other chip companies—including big winners like LSI Logic, VLSI Technology and Xilinx—companies with $4.7 billion a year in revenue and 16,400 employees. By funding such companies as America Online and Netscape, you commercialized the Internet and then enriched it by funding companies like Amazon.com that put the bookstore on line. In addition to that, I am aware of a dozen or more new companies Kleiner-Perkins has funded that will literally define the future of the Internet. You and your partners also launched the biotech industry by funding not only Genentech, but 20 more biotech and healthcare companies that fix vision with lasers, perform genetic engineering, create skin tissue to repair burns, make ultralow-dosage X-ray machines, and produce equipment for use in spinal surgery. One of your companies could literally cure cancer.
>
> And you and your partners, along with the network of Silicon Valley venture capitalists, have funded those amazing companies that have revolutionized our country—for less money than it takes to build a single warship.
>
> John, who is more valuable to us? John Doerr, the lobbyist who can get the Unified National Standards Act enacted, or John Doerr, the venture capitalist who has helped change the world?
>
> John, we can't afford to send you to Washington.

How could John Doerr respond to that? He said, "Well, when you put it like that... ."

John Doerr is a great example of the enhanced value of an individual in a capitalist society. The example also dramatically illustrates the efficiency of free-market investments, compared with the investments of collectivist organizations. With the money to buy one warship, the Politburo probably would have bought one more warship, later to be mothballed. Japanese and Korean collectivists probably would have added another unneeded semiconductor memory plant to acerbate the current chip glut which is so severe it has devastated the Japanese and Korean economies.

In Silicon Valley, with the same money, John and the network of venture capitalists built an economic battleship that generates wealth from the private property of ideas traded in a free market.

Washington builds battleships, battleship laws, and battleship bureaucracies. That's why we shouldn't normalize our relationship with it. To do so would be to choose against capitalism and freedom. When we see the government attacking our successes, such as Microsoft and Intel, we should stand together to defend that attack on free markets. And when we see the government seizing the assets of tobacco companies, we should not be quiet because we don't like tobacco. The obscenity of federal and state attorneys general lining up like plaintiffs' attorneys to confiscate the assets of a company will surely be repeated. Right now, Washington is already calling the much-publicized "Year 2000" problem a "chip problem." I won't waste your time on the technological absurdity of that position.

The point is that if we sit back while the government illegally seizes the assets of the tobacco companies, we may find the same carpetbagging attorneys suing to gain Silicon Valley's assets soon after January 1, 2000.

Silicon Valley is an island of capitalism and freedom admired around the world. We must remember that free minds and free markets are the moral foundation that have enabled our success. And never allow those freedoms to be diminished for any reason.